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SUBJECT: OMAN OFFICIAL ON PRIVATIZATION, FTA HOPES
(C-NE4-01168)

Summary

[1](#)1. (SBU) In a meeting on February 1, National Economy Under Secretary Abdul Malik al-Hinai outlined the Omani

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government's privatization strategy for a visiting USG official in the power, water, telecommunications and transport sectors. He predicted the sale of 30 percent of state-owned telecoms incumbent Omantel will come in March-April, while larger scale privatization of telephone landline, power distribution and wastewater services must await further government expenditures to extend infrastructure to rural and outlying areas. He expressed Omani government determination to reach a Free Trade Agreement with the USG expeditiously, and hopes it will produce immediate benefits in terms of new investment. He indicated Oman's desire for a liberal rules of origin delineation. End summary.

[1](#)2. (U) Visiting EB Special Advisor J. Frank Mermoud met February 1 with Ministry of National Economy (MNE) Under Secretary Abdul Malik al-Hinai. While Mermoud lobbied for

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U.S. firm Bechtel's ultimately successful bid on an aluminum smelter project in the industrial port of Sohar, he likewise solicited Hinai's views on the proposed bilateral Free Trade Agreement (FTA), and on the Ministry's plans for privatization, which Hinai oversees.

FTA Wishes, Expectations

[1](#)3. (SBU) The Under Secretary emphasized the investment and industrial ramifications of an FTA, saying the Omani government is committed to concluding the agreement as expeditiously as possible with the U.S. in hopes of spurring bilateral trade. Hinai indicated that his personal barometer of the success of an eventual FTA will be the amount of investment it brings into the Sultanate. He had heard of such successes from his Jordanian colleagues following implementation of that free trade pact. Possibly laying down a marker on Oman's FTA negotiating position, he said he hoped Oman could be treated as a developing nation where rules of origin are concerned, saying such a measure will be vital to Oman's garments industry. But overall, he emphasized the need for FTA to produce immediate, tangible benefits for Oman's business community.

Sectoral Privatization Plans

[1](#)4. (U) Al-Hinai gave a brief run-down of the government's privatization strategy and status by sector.

Power: The Sultanate has already privatized some aspects of the power sector, including two operations (in Barka and Dhofar) that have U.S. corporate participation. He deemed it possible that, by 2006, nearly all power generation plants will be fully privatized. A longer-term prospect is privatization of power distribution networks. He indicated that the government feels obligated to extend electrification to remaining rural areas before agreeing to sell off that infrastructure.

Desalination and Wastewater: A number of desalination projects are in the cards for Oman. A facility in Sohar is currently under construction by a Belgian-led consortium (Tractabel), and there are currently studies on enlarging the Barka desal facility near Muscat and building a new plant in Sur. The Sohar project will be huge, he said, since the facility will have to meet the water needs of both the Batinah (the most populous of Oman's eight regions) and Dakhiliyah regions. The plant in Sur will be vital to

agriculture in Oman's Sharqiyah region, which has been under prolonged drought. As for wastewater, there are two state-owned firms operating in that field (in Muscat and Dhofar). While the MNE is committed to privatizing them eventually, the government again insists on extending the basic infrastructure into a complete network before selling the firms off.

Telecommunications: A second mobile phone operator (Qatar's Q-Tel, in a consortium with TDC of Denmark and local investors) has recently been licensed to offer competition to state-owned incumbent Omantel. Hinai reported that the long-awaited public offering of 30 percent of Omantel shares is "imminent," guessing that it could occur as early as the March-April timeframe. He said telecommunications privatization was not wholly in MNE's purview, since the sector's value is treated as a major asset by the Ministry of Finance. The new Telecommunications Regulatory Agency (TRA) will soon be fully operational and professionalized, which will further facilitate privatization. He cautioned, however, that Omantel (and by implication, the government) needed to invest significantly more to expand fixed lines and Internet infrastructure to the remote parts of the Sultanate still without service.

Most Attractive Investment Areas

15. (U) Asked for the more prospective sectors of the Omani economy for U.S. businesses, al-Hinai listed power, desalination and wastewater as being the most attractive, in part due to the existing U.S. presence in those fields in Oman. (The wastewater network in Dhofar, for instance, was initially started under a USAID grant.) He thinks a new port project for the remote central coast town of Duqm might also be of U.S. interest, with fish farming, a dry dock and an asphalt factory among the envisioned industries there. But apart from large U.S. corporations like Dow and Bechtel, al-Hinai said he strongly hopes FTA will make Oman more attractive and viable for American small and medium-sized enterprises.

Comment

16. (SBU) While ambitious, Oman's privatization plans still envision a predominant role for the government in developing infrastructure and undertaking capital investment. Current budget surpluses make such investments possible, but there is a serious risk of public spending "crowding out" private investment. In the meantime, Oman continues to hope that the FTA will yield significant new prospects for American investment. With Dow already planning a large presence in Oman, and Bechtel reporting to us February 13 that they won the aluminum smelter bid, there is a growing momentum for American firms in the Sultanate on the eve of FTA negotiations.
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